Article | 8 May 2025

We're lowering our Asia growth forecasts because of tariffs

The direct impact of President Trump's tariffs on exports, along with the indirect effects through China, will slow growth for most Asian economies, and because of that, we're lowering our GDP forecasts for 2025

South Korea is expected to post the lowest growth rate in Asia this year

Revising our GDP growth forecasts

We are revising our GDP growth forecasts for Asia downward across the board. The direct impact of tariffs on exports, coupled with the indirect effects via China, will reduce growth for most economies in the region. Economies heavily reliant on external demand are expected to see a significant decline in export growth. Manufacturing activity indicators have already shown signs of weakening in April, necessitating a reassessment of our GDP growth projections.

Conversely, economies driven by domestic demand are likely to perform better. However, they will not be entirely immune to the negative effects. The direct hit to export growth will also have secondary impacts on employment, investment and consumption, leading to a broader slowdown in economic activity.

More fiscal and monetary support is likely on its way across economies. We now anticipate that both India and the Philippines will reduce interest rates by an additional 75bp in 2025, up from the previously expected 50bp. This adjustment is driven by lower global oil prices and stronger local currencies, which should confirm a sustained decline in domestic inflation. The Monetary Authority of Singapore (MAS) has eased monetary policy twice in a row via a reduction in the S$NEER slope, and we expect another move in the third quarter. The governments of Singapore, Indonesia and the Philippines have indicated higher government spending if downside risks escalate.

Below is a quick snapshot of our views around the region.

Singapore: We estimate that 5% of Singapore's exports to the US are routed through China and will therefore incur a higher tariff rate of 125%. The remaining 95% of exports (excluding semiconductors and pharmaceuticals) will be taxed at 10%. Assuming a price elasticity of one in response to higher tariffs, we anticipate a corresponding decline in demand. Consequently, with reciprocal tariffs currently on hold, we expect US tariffs to reduce exports by 0.7% of GDP. The broader impact on GDP growth will be more significant as second-round effects ripple through other sectors of the economy, particularly manufacturing and employment.

Considering the effects of higher tariffs on exports, the weaker-than-expected growth in the manufacturing sector during the first quarter – which is likely to persist throughout the year – and the potential spillover of the manufacturing slowdown into the services sector, we are adjusting our GDP forecast for 2025 down by 100bp to 1.6% year-on-year.

Korea: South Korea is expected to post the lowest growth rate in the region in 2025 (0.4% YoY in 2025). Headwinds from weaker global demand will weigh on exports, but domestic growth is expected to rebound as the political situation normalises. The new government is likely to support growth with a sizable supplementary budget, while the Bank of Korea is expected to lower its policy rates below its neutral level.

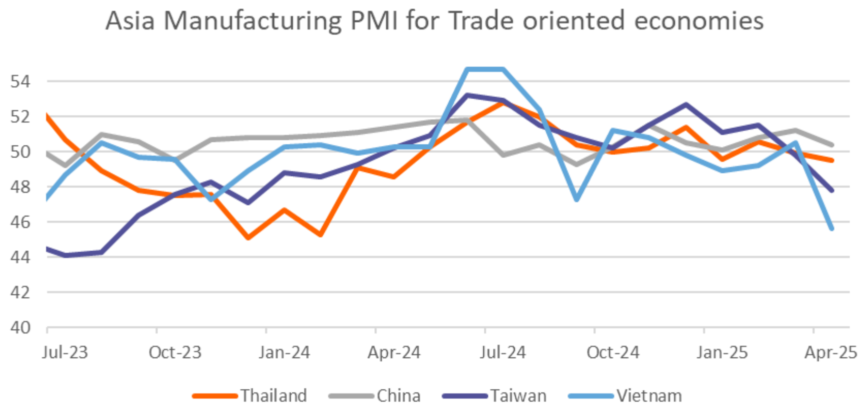
Japan: We have lowered Japan's GDP growth modestly to 0.9% YoY for 2025. The Japanese economy is expected to have contracted in the first quarter (-0.1% QoQ sa). Monthly activity data shows that Japan has had limited support from frontloading. Instead, Japanese companies appear to have been managing their inventories. Japan is expected to aim to lower tariffs on its largest export, automobiles, instead of accommodating most of the US's demands. With fiscal support and solid private consumption, the economy is likely to recover in the second half of the year. With inflation remaining high, above 3%, the Bank of Japan is likely to raise its key interest rate by 25bp this year. The timing will depend on a trade agreement.

India: We maintain our view that India is expected to outperform growth in the rest of the region. India is not only the most advanced in tariff negotiations with the US, but it also benefits from tariff exemptions on pharmaceutical exports in the interim. However, the manufacturing sector and consumption growth during the year have so far been weaker than expected, largely due to a cyclical slowdown in domestic demand. Consequently, we now expect GDP growth of 6.4% in 2025, down from our previous estimate of 6.8%.

The Philippines: Higher fiscal spending ahead of the mid-term elections this month, along with a continued push for infrastructure development and lower oil prices, should help cushion GDP growth from the drag caused by slower exports. Consequently, we are lowering our 2025 GDP forecast to 5.6% year-on-year.

Indonesia: Indonesia's high trade exposure to China, coupled with weaker commodity prices, is expected to negatively impact export growth. A larger concern for the country's growth trajectory stems from substantial spending cuts on infrastructure and public works, which have been redirected to less efficient and productive programmes. Additionally, weak retail sales growth reflects tepid consumption. Although bank credit grew at a respectable 10% year-on-year as of December 2024, it has been declining since April 2024. Overall, we see Indonesia's GDP growing at 4.8% in 2025, down from our previous estimate of 5%**.**

Weak manufacturing activity in trade-oriented economies



Source: CEIC

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